

Township of Hart
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2008

Township of Hart

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As management of the Township of Hart, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township of Hart for the fiscal year ended March 31, 2008. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- The General Fund fund balance decreased by \$66,733, after spending \$72,500 on the old Polk Road State Barn, and a slight increase in revenues.
- The Road Millage Fund fund balance increased by \$62,813 due to collecting road millages without any expenditures.
- The DDA's net assets increased by \$32,895 after collecting revenues without any expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The Township does not have any business-type activities.

The government-wide financial statements include not only the Township of Hart (the primary government) but also a legally separate discretely presented component unit, the Downtown Development Authority (DDA). A majority of the board of this organization is appointed by the Township Supervisor and the remainder of the board is appointed by the mayor of the City of Hart. Given the interrelation of the DDA and the Township, there is some potential liability for the Township due to the Township's pledge of its full faith and credit for debt obligations. The financial information of this component unit is reported in a separate column from the financial information of the primary government itself.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories—governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Township of Hart maintains two governmental funds, the General Fund and the Road Millage Fund.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund and the Road Millage Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide Statement of Net Assets for the Township of Hart. Capital assets increased due to the purchase of the Polk Road Old State Barn. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2008, the Township's net assets from governmental activities totaled \$529,198.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$408,440. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

Net Assets

	Governmental Activities	
	2008	2007
Current assets	\$ 431,277	\$ 432,647
Capital assets	120,758	40,711
Total assets	552,035	473,358
Current liabilities	22,837	18,839
Net assets		
Invested in capital assets	120,758	40,711
Unrestricted	408,440	413,808
Total net assets	\$ 529,198	\$ 454,519

Township of Hart

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased by \$74,679 (16%) during the 2008 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Property tax revenues increased primarily due to normal inflationary increases in taxable value and the collection of a road millage. State shared revenue was higher than expected. Investment earnings increased due to higher interest rates. General government increased as a result of an increase in professional services in regards to surveying related to assessing. Public works decreased due to less road construction done during the year. Culture and recreation decreased due to soccer field improvements completed in the prior year.

Change in Net Assets

	Governmental Activities	
	2008	2007
Revenues		
Program revenues		
Charges for services	\$ 2,757	\$ 3,511
General revenues		
Property taxes	147,457	77,731
Grants and contributions	149,529	138,237
Unrestricted investment earnings	11,119	10,622
Miscellaneous	10,192	13,906
Total revenues	321,054	244,007
Expenses		
General government	179,186	158,045
Public safety	40,438	36,414
Public works	10,889	14,891
Community and economic development	10,343	10,651
Culture and recreation	5,519	21,718
Total expenses	246,375	241,719
Change in net assets	74,679	2,288
Net assets - Beginning	454,519	452,231
Net assets - Ending	\$ 529,198	\$ 454,519

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the Township's governmental funds reported a combined unreserved fund balance of \$321,356, of which \$214,042 is in the General Fund and \$107,314 is in the Road Millage Fund. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance of \$5,908 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate commitments and purchase orders. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$327,264, of which \$219,950 is in the General Fund and \$107,314 is in the Road Millage Fund.

The General Fund had a decrease in fund balance of \$66,733 due to the purchase of a building next to the Township Hall. The Road Millage Fund had an increase in fund balance of \$62,813 due to property tax collections with no disbursements during the year.

General Fund Budget

During the current fiscal year, the Township made a few amendments to its original budget. The most significant of those is listed below:

- The original elections budget was increased by \$1,510 due to an additional election during the year.
- The original assessor budget was increased by \$1,825 because the Township implemented a new GPS assessing package.
- The original community and economic planning budget was increased by \$725 because the Township had originally planned on developing a master plan, which did not materialize.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

Revenues

- Property taxes were lower than budgeted because the Section 425 revenues were lower than expected. State shared revenues exceeded the budget because the Township underestimated the amount actually paid by the State.

Expenditures

- Township Board expenditures were over budget because professional fees were higher than anticipated.
- Road expenditures were less than budgeted due to less work being performed by the Road Commission.
- Capital outlay expenditures were over budget due to the purchase of Polk Road Old State Barn.

Capital Assets Administration

The Township of Hart's investment in capital assets for its governmental activities as of March 31, 2008 totaled \$120,758 (net of accumulated depreciation). This investment in capital assets includes land, building, land improvements, leasehold improvements and equipment. Major capital asset events during the current the year included the purchase of a new building for \$72,500, and the donation of two optical scan voting machines from the State of Michigan for \$11,000.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2008	2007
Land	\$ 13,440	\$ 13,440
Building	72,349	-
Land improvements	14,009	14,807
Leasehold improvements	6,935	8,059
Equipment	14,025	4,405
Total	<u>\$ 120,758</u>	<u>\$ 40,711</u>

Additional information on the Township's capital assets can be found in Note E of the "Notes to Financial Statements" of this report.

General Economic Overview

The General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 91% of the General Fund revenue sources. The state revenues are affected by the State of Michigan budget along with sales tax collections. State revenue sharing is not expected to increase in fiscal year 2009. Property tax revenues are expected to increase 3 to 4 percent due to normal inflationary increases in taxable value. Expenditures are expected to increase due to major road improvements.

Requests for Information

This financial report is designed to provide a general overview of the Township of Hart's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Township of Hart, 3437 W. Polk Road, PO Box 740, Hart, Michigan, 49420, (231) 873-2734.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 14, 2008

Township Board
Township of Hart
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Hart, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Hart, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Hart, Michigan, as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vii and 17 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Township of Hart
STATEMENT OF NET ASSETS
 March 31, 2008

ASSETS

	Governmental activities	Component Unit Downtown Development Authority
CURRENT ASSETS		
Cash and investments	\$ 307,008	\$ 158,059
Receivables		
Property taxes	15,417	-
Land contract	81,176	-
Due from other governmental units	21,768	-
Prepaid items	5,908	-
Total current assets	431,277	158,059
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable	13,440	-
Depreciable	107,318	-
Total noncurrent assets	120,758	-
Total assets	552,035	158,059
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	10,629	-
Due to other governmental units	12,208	-
Total liabilities	22,837	-
NET ASSETS		
Invested in capital assets	120,758	-
Unrestricted	408,440	158,059
Total net assets	\$ 529,198	\$ 158,059

The accompanying notes are an integral part of this statement.

Township of Hart
STATEMENT OF ACTIVITIES
For the year ended March 31, 2008

Functions/Programs	<u>Expenses</u>	<u>Program Revenue Charges for services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	
			<u>Primary Government Governmental activities</u>	<u>Component unit Downtown Development Authority</u>
Primary government				
Governmental activities				
General government	\$ 179,186	\$ -	\$ (179,186)	\$ -
Public safety	40,438	-	(40,438)	-
Public works	10,889	-	(10,889)	-
Community and economic development	10,343	2,757	(7,586)	-
Culture and recreation	<u>5,519</u>	<u>-</u>	<u>(5,519)</u>	<u>-</u>
Total governmental activities	<u>\$ 246,375</u>	<u>\$ 2,757</u>	(243,618)	-
Component unit				
Downtown Development Authority				
Economic development	<u>\$ -</u>	<u>\$ -</u>	-	-
General revenues				
Property taxes			147,457	31,758
Grants and contributions not restricted to specific programs			149,529	-
Unrestricted investment earnings			11,119	1,137
Miscellaneous			<u>10,192</u>	<u>-</u>
Total general revenues			<u>318,297</u>	<u>32,895</u>
Change in net assets			74,679	32,895
Net assets at April 1, 2007			<u>454,519</u>	<u>125,164</u>
Net assets at March 31, 2008			<u>\$ 529,198</u>	<u>\$ 158,059</u>

The accompanying notes are an integral part of this statement.

Township of Hart
BALANCE SHEET
 Governmental Funds
 March 31, 2008

	General Fund	Road Millage Fund	Total governmental funds
ASSETS			
Cash and investments	\$ 205,787	\$ 101,221	\$ 307,008
Property taxes receivable	9,324	6,093	15,417
Due from other governmental units	21,768	-	21,768
Prepaid items	5,908	-	5,908
Total assets	<u>\$ 242,787</u>	<u>\$ 107,314</u>	<u>\$ 350,101</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 5,366	\$ -	\$ 5,366
Accrued liabilities	5,263	-	5,263
Due to other governmental units	12,208	-	12,208
Total liabilities	22,837	-	22,837
Fund balances			
Reserved for prepaid items	5,908	-	5,908
Unreserved			
General Fund	214,042	-	214,042
Special Revenue Fund	-	107,314	107,314
Total fund balances	<u>219,950</u>	<u>107,314</u>	<u>327,264</u>
Total liabilities and fund balances	<u>\$ 242,787</u>	<u>\$ 107,314</u>	<u>\$ 350,101</u>

The accompanying notes are an integral part of this statement.

Township of Hart
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2008

Total fund balance—governmental funds	\$ 327,264
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 131,312	
Accumulated depreciation	<u>(10,554)</u>	120,758

Certain receivables in governmental activities are not available to pay for current period
expenditures and are not reported in the governmental funds.

<u>81,176</u>

Net assets of governmental activities in the Statement of Net Assets	<u><u>\$ 529,198</u></u>
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The accompanying notes are an integral part of this statement.

Township of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2008

	General Fund	Road Millage Fund	Total governmental funds
REVENUES			
Property taxes	\$ 85,874	\$ 61,583	\$ 147,457
Licenses and permits	2,757	-	2,757
Intergovernmental revenues - State	149,529	-	149,529
Investment earnings	9,889	1,230	11,119
Other	11,640	-	11,640
Total revenues	259,689	62,813	322,502
EXPENDITURES			
Current			
General government	176,531	-	176,531
Public safety	40,438	-	40,438
Public works	10,889	-	10,889
Community and economic development	10,343	-	10,343
Culture and recreation	4,721	-	4,721
Capital outlay	83,500	-	83,500
Total expenditures	326,422	-	326,422
Net change in fund balances	(66,733)	62,813	(3,920)
Fund balances at April 1, 2007	286,683	44,501	331,184
Fund balances at March 31, 2008	\$ 219,950	\$ 107,314	\$ 327,264

The accompanying notes are an integral part of this statement.

Township of Hart
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended March 31, 2008

Net change in fund balances—total governmental funds	\$	(3,920)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(3,453)
Capital outlay		80,047
		<u>83,500</u>

Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets.		<u>(1,448)</u>
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Change in net assets of governmental activities	\$	<u><u>74,679</u></u>
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The accompanying notes are an integral part of this statement.

Township of Hart
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Fund
March 31, 2008

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>10,765</u>
LIABILITIES	
Due to other governmental units	\$ <u>10,765</u>

The accompanying notes are an integral part of this statement.

Township of Hart
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Hart (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

The Township is a municipal corporation governed by an elected five-member Board and is administered by a Township Supervisor. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. The discretely presented component unit has a March 31 fiscal year end.

Discretely Presented Component Unit

Downtown Development Authority (DDA). A majority of the DDA board is appointed by the Township Supervisor and the remainder is appointed by the mayor of the City of Hart, but the Authority operates as a separate entity. The component unit is presented as a governmental fund type.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Millage Fund which is used to account for a millage levied for improvements to Township roads.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Township's investment pool.

Receivables and Payables

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the Township totaled approximately \$67,000,000. The ad valorem taxes levied consisted of 1.25 mills and 1.0 mills for the Township's general and road operations. These amounts are recognized in the General Fund and the Road Millage Fund, respectively.

The DDA receives its property tax revenue from the City of Hart through a Section 425 agreement.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	20
Leasehold improvements	9
Equipment	10

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to March 31, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level.

Excess of Expenditures Over Appropriations

During the year ended March 31, 2008, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Township Board	\$ 52,525	\$ 64,607
Assessor	16,815	18,373
Capital Outlay	15,350	83,500

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, \$252,343 of the Township's bank balance of \$465,256 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE D—LAND CONTRACT RECEIVABLE

The Township sold a building through a land contract. The agreement requires monthly payments of \$599 at 7 percent interest with a final balloon payment due by September 2008.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,440	\$ -	\$ -	\$ 13,440
Capital assets, being depreciated:				
Building	-	72,500	-	72,500
Land improvements	15,952	-	-	15,952
Leasehold improvements	10,120	-	-	10,120
Equipment	8,300	11,000	-	19,300
Total capital assets, being depreciated	34,372	83,500	-	117,872
Less accumulated depreciation:				
Building	-	151	-	151
Land improvements	1,145	798	-	1,943
Leasehold improvements	2,061	1,124	-	3,185
Equipment	3,895	1,380	-	5,275
Total accumulated depreciation	7,101	3,453	-	10,554
Total capital assets being depreciated, net	27,271	80,047	-	107,318
Capital assets, net	\$ 40,711	\$ 80,047	\$ -	\$ 120,758

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:	
General government	\$ 2,655
Culture and recreation	798
	<u>3,453</u>
	<u>\$ 3,453</u>

Township of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2008

NOTE F—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability and property risk as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for workers' compensation, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years

NOTE G—PENSION PLANS

Defined Contribution Plan

The Township maintains a defined contribution retirement plan administered by John Hancock that covers all of its employees. The Plan requires the Township to contribute an amount equal to 9 percent of the employee's annual compensation each plan year and employees are required to contribute 3 percent of their annual compensation. The Township's contribution for the year ended March 31, 2008 was \$6,363 and the employees' contributions were \$1,357.

NOTE H—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 56 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Hart
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 101,358	\$ 101,358	\$ 85,874	\$ (15,484)
Licenses and permits	3,000	3,000	2,757	(243)
Intergovernmental revenues - State	135,000	135,000	149,529	14,529
Investment earnings	10,700	10,700	9,889	(811)
Other	9,050	9,050	11,640	2,590
Total revenues	259,108	259,108	259,689	581
EXPENDITURES				
Current				
General government				
Township Board	52,525	52,525	64,607	(12,082)
Township Supervisor	8,450	8,450	8,383	67
Elections	600	2,110	2,355	(245)
Board of review	1,800	1,800	1,095	705
Clerk	14,470	14,470	14,898	(428)
Treasurer	18,560	18,560	18,536	24
Assessor	14,990	16,815	18,373	(1,558)
Building and grounds	39,475	35,415	31,010	4,405
Cemetery	17,600	17,600	17,274	326
Public safety	41,550	41,550	40,438	1,112
Public works				
Roads	15,100	15,100	9,355	5,745
Street lighting	1,700	1,700	1,534	166
Community and economic development				
Planning	9,438	10,163	10,343	(180)
Culture and recreation				
Parks	7,500	7,500	4,721	2,779
Capital outlay	15,350	15,350	83,500	(68,150)
Total expenditures	259,108	259,108	326,422	(67,314)
Net change in fund balance	\$ -	\$ -	(66,733)	\$ (66,733)
Fund balance at April 1, 2007			286,683	
Fund balance at March 31, 2008			\$ 219,950	

Township of Hart
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Road Millage Fund
For the year ended March 31, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ -	\$ -	\$ 61,583	\$ 61,583
Licenses and permits	-	-	-	-
Intergovernmental revenues - State	-	-	-	-
Investment earnings	-	-	1,230	1,230
Other	-	-	-	-
Total revenues	-	-	62,813	62,813
EXPENDITURES	-	-	-	-
Net change in fund balance	\$ -	\$ -	62,813	\$ 62,813
Fund balance at April 1, 2007			44,501	
Fund balance at March 31, 2008			\$ 107,314	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 14, 2008

Township Board
Township of Hart
Hart, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Hart as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Township of Hart's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the attached deficiencies, identified as material weaknesses, constitute material weaknesses.

This communication is intended solely for the information and use of the Township Board, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESS

Recommendation 1: The Township should maintain a complete set of records for the Road Millage Fund.

During our testing, we noted that Road Millage Fund cash was not recorded in the general ledger. It was determined that a separate Road Millage Fund had been established, but no general ledger to record activity had been prepared. Additionally, no budget for the Road Millage Fund had been prepared.

All governmental funds should have a complete set of accounting records including current year budget information.

SIGNIFICANT DEFICIENCIES

Recommendation 2: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Township should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Recommendation 3: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Township should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often the most effective approach is the expansion of documented approval of transactions and reconciliations by the Township Board and chief executive officer.

Recommendation 4: The Township should amend the budget prior to the end of the fiscal year.

During our testing, we noted the Township purchased real estate prior to year end which resulted in significant expenditures in excess of appropriations in the Capital Outlay budget.

The Township should approve an amended budget prior to year end for any large expenditures.